Santa Clara Valley Water District

District Management Audit Program
Office of CEO Support

AUDIT REPORT

Project Number:	FY2014-B-001		
Project Name:	Management Controls for District Credit Card Use (P-Card Audit)		
Project Start Date:	September 12, 2013	Project Close Date:	November 8, 2013
		Draft Report:	November 15, 2013
		Final Report Issued:	November 21, 2013
Project Type:	Internal Performance Management Review		
Requested By:	District Board of Directors		

Key District Project Staff:

- Beau Goldie — Chief Executive Officer
- Jesus Nava — Chief Administrative Officer
- Ravi Subramanian — Deputy Administrative Officer, Procurement and Operational Services Division
- Darryl Williams — Purchasing, Consultant Contracts, and Warehouse Services Unit Manger

EXECUTIVE SUMMARY

Introduction

A review of Santa Clara Valley Water District (District) management controls of credit card use was identified as a potential area of interest by the audit committee several years ago and was added to the Board Management Audit Priority List for further review and discussion.

At its July 9, 2013 meeting, the District Board of Directors (Board) formally commissioned a level 1 internal performance management audit of the Management Controls for District Credit Card Use , or what is more commonly called at the District, the District Purchase Card (P-Card) Program, at the recommendation of the Board Audit Ad Hoc Committee.

A level 1 audit, as defined in the District Management Audit Program plan, is a basic procedural review that includes documentation and review of policies, procedures and controls of a particular business area or activity.

In requesting the audit, the Board expressed no concerns in particular regarding the current use of district credit (purchase) cards, but sought to better understand current policies and procedures and the safeguards (management controls) that are in place to ensure that credit cards are used solely for business purposes and used in a matter that is efficient and in line with district needs.

Key Observations

Overall, purchase card assignment and use is well controlled at the District. The following strengths were noted in the District P-Card Program:

- Well documented policies and procedures governing District P-Card use are in place at the District.

- Roles and responsibilities between units are clearly stated and well defined.

- Separation of duties is in place as required.

- All cardholders are required to submit monthly P-Card transaction logs.

  The log requires information such as item description, amount, account coding, work order, receipts, sales taxes, etc. The cardholder attests to the expenditures by signing the log and then the log is reviewed and approved by the Unit Manager/ Deputy/ Chief/ BAO before it is sent to the Accounting Unit.

- Utilization reports and transaction detail reports are readily available to management and staff to monitor card use.

- External controls, such as card holder/bank approvals and Merchant Category Code and cash advance blocking, further assist the District in controlling and managing credit card use.

- During FY2013, there were no reports of misuse of District P-Cards.

Summary

Based on procedural level review of the program, it was determined that the district's current procedures and practices surrounding the use of District P-Cards provide the managerial controls necessary to provide a reasonable level of assurance that purchase cards at the district are used in a matter that is appropriate and in line with business needs. No significant audit findings were found.

Related Board Policy

The P-Card audit supports Board Governance Policy BL-5 Monitoring Board Appointed Officer Performance. More specifically BL-5.2 which states the following:

The Board will acquire monitoring data by one or more of three methods: (a) by internal report, in which the BAOs disclose compliance information to the Board, (b) by external report, in which an external, disinterested third party selected by the Board assesses compliance with Board policies, and (c) by direct Board inspection, in which a designated member of members of the Board assess compliance with the appropriate policy criteria.

The audit further supports the following Executive Limitations in EL-4 Financial Management, which states that the BAO shall:

- *EL-4.1. Expend only those funds that have been appropriated in the Operating and Capital budgets, reserves, and debt service.*
- *EL-4.2. Spend in ways that are cost-efficient.*
- *EL-4.15 Receive, process or disburse funds under controls which meet audit standards.*

Audit Scope

The Management Controls of District Credit Card Use Audit seeks to answer the following questions, which define the audit scope:

1. Number of credit cards currently issued?
2. Who are they issued to?
3. Are management controls, reviews, and required approvals in place for card assignment?
4. Are limits placed on single purchases? Monthly/ annual use?
5. Does the district have procedures in place that govern credit card use?
6. Are roles and responsibilities clear?
7. Are credit card purchase statements/use reports submitted for review? How often? Who reviews and approves them? Is the proper level of review/approval in place?
8. Are points of conflict of interest removed to allow for and ensure separation of duties and independent review?
9. Are utilization reports kept and maintained? Are the utilization reports shared or discussed with management?
10. Have there been any reported, or discovered, incidences of misuse?

In general, the purpose of the audit is to determine if the district has documented procedures and management controls in place to provide a reasonable level of assurance to the Board and the public that district purchase cards are properly issued, controlled and managed and purchases are made for business purposes.

Scope Exclusions

The Management Controls of District Credit Card Use Audit did not include a detailed examination or testing of individual card purchases, which would go beyond the scope of a procedural audit.

Audit Steps

The Management Controls of District Credit Card Use Audit was conducted by acquiring information through interviews, an examination of business area activities, procedures and forms.

Key District Staff

Data collection requests for this audit were fulfilled by Ravi Subramanian, Procurement and Operational Services Division Deputy Administrative Officer; and Darryl Williams, Purchasing, Consultant Contracts, and Warehouse Services Unit Manager.

District Purchasing Card (P-Card) Program

a. Program Background

The District's Purchasing Card (P-Card) Program started in 1997 with Bank of America as the card issuer and is administered by the Purchasing, Consultant Contracts and Warehouse Services Unit.

Multiple levels of checks and balances described for the purchasing card program provide robust management controls for District issued purchasing cards.

Below is a description of the policies, procedures, and management controls that are in place for the District's P-Card Program:

b. Policies / Procedures

The District's P-Card Program is governed and managed based on the following policies, procedures, and Quality and Environmental Management System (QEMS) work instructions and forms:

- Policy 9-405 – Outlines the policy for the District P-Card Program which authorizes District employees to purchase minor value items and materials depending on the limits of each card.

- Admin Bulletin 2006-05 – Outlines the approval process for obtaining P-Cards and the signatory authority.

- QEMS Work Instruction (W741D022) -Purchasing Card Program Administration

This work instruction document describes program administration responsibilities while outlining the tasks required to the support the District's purchasing cardholders while minimizing risk to the District. The Purchasing, Consultant Contracts and Warehouse Services unit manager is the P-Card Program Manager.

- QEMS Work Instruction (W741D023) - Purchasing Cardholder Instructions

  This work instruction documents District purchasing cardholder requirements, responsibilities, prohibited uses, lost/stolen card notification, and other information.

- Purchasing Card Agreement Form

  This purchasing card agreement form is completed by each cardholder/user and is approved at the Deputy Officer level.

c. Management Controls

Internal District controls and external card issuer/bank controls help manage ensure the proper use of District P-Cards.

Listed below are the various internal and external controls current in place and operational to ensure proper use of District P-Cards:

- At initiation of request – The request must be approved by a Deputy Officer, Chief, or BAO (Board Appointed Officer).

- Card issuer/Bank approval – The card issuer/bank requires the District to complete and send a form with the employee's information. The card issuer/bank performs a credit check, approves/rejects the application, and issues the card if approved.

- Limits – Monthly Card limit and Single Transaction limits along with number of daily or monthly authorizations are established and included in the form sent to the Card issuer/Bank. These limits are based on the business needs and Executive Limitations for Purchasing and Contracts.

- Merchant Category Code – The Code is a four-digit number used by the bankcard industry that classifies merchants into market segments. Using the code, certain merchant categories like pawn shops, gambling places, and others can be blocked by the card issuer. The District has asked the card issuer to block such merchants along with blocks for cash advances or ATM machines.

- District P Card Use Agreement – The employee signs the document agreeing to the terms and conditions and the Unit Manager/ Deputy/ Chief/ BAO also attest to the agreement.

- Accounting controls - After the card holder receives the card, within the first five days of each month, cardholders are required to submit a P-Card transaction log and submit it to the District's Accounting Unit. The log requires information such as item description, amount, account coding, work order, receipts, sales taxes, etc. The cardholder attests to the expenditures by signing the log and then the log is reviewed and approved by the Unit Manager/Deputy/Chief/BAO before it is sent to the Accounting Unit.

  Accounting personnel review the transaction log along with the supporting documentation, and also check the use/misuse of the card, and adherence to purchasing card and travel policies.

- Any deviation from District policy or authorized use is reported to the cardholder's manager and the P-Card program manager for further action.

- There is a clear separation of duties between the processors of purchasing transactions (Purchasing Unit) and the reviewer/monitor of transactions (Accounting Unit).

- Spot checks/audits - Monthly and spot checks/audits are also conducted by the Accounting Unit and the District's P-Card program manager who is the Purchasing Unit Manager.

- Per policy, disciplinary action for misuse, depending on the severity of the action, may include revocation of the P-Card, and/or termination of the employee.

d. Data Tables on P-Card Use

As of the end of the FY2013, there were 127 card holders at the District.

The following tables show various informational about the use of P-cards and spending controls at the District, including monthly limits, single transaction limits, and the number and dollar amount of transactions.

Table 1 below indicates the number of card holders and monthly card limits.

- 86% of P-Card holders have a total monthly limit of $5,000.

- Cards with $50,000, $75,000, and $100,000 limits are used only by Purchasing.

- In FY2014, the card with the monthly limit of $100,000 was discontinued.

Table 1: Monthly Limits

Monthly Limit	No. of Cardholders	% of cardholders
5,000	109	85.83%
6,000	1	0.79%
7,500	8	6.30%
15,000	1	0.79%

50,000	3	2.36%
75,000	4	3.15%
100,000	1	0.79%
	127	100.00%

Table 2 below indicates single transaction card limits.

- Approx. 32% of cardholders have a single transaction limit of $1,000
- 27% have a single transaction limit up to the monthly limit.

Table 2: Single Transaction Limits

Single Transaction Limit	No. of Cardholders	% of cardholders
1,000	36	31.86%
1,500	32	20.35%
2,000	1	0.88%
2,500	22	18.58%
5,000	1	0.88%
Up to Monthly limit	35	27.43%
	127	100.00%

Table 3 below shows the spend analysis of the P-cards.

The table indicates the number and percent of transactions, the total dollar value and percent of those transactions along with the number of cardholders and monthly transaction card limits.

Table 3: FY2013 Number and Percent of Transactions* and Dollar value

Monthly Card Limit	No. of Cardholders	No. of Transactions	% of No. of Transactions	Total $ Amt of the Transactions	% of $ Amt of Transactions
5,000	109	3429	63.85%	$649,449.44	36.97%
6,000	1	45	0.84%	$10,823.33	0.62%
7,500	8	590	10.99%	$223,381.66	12.72%
15,000	1	80	1.49%	$15,410.00	0.88%
50,000	3	66	1.23%	$44,279.99	2.52%
75,000	4	773	14.39%	$619,979.28	35.30%
100,000	1	387	7.21%	$193,218.29	11.00%
	127	5370	100.00%	$1,756,541.99	100.00%

*Transactions: Data associated with each transaction listed is available in the District Accounting Unit

Table 4 below indicates the number of cardholders by Unit.

- The largest numbers of cardholders are in Facilities, Plant Maintenance, and Purchasing.

Table 4: Purpose and Unit Names

Purpose/Unit Name	No. of Cardholders
Business & Customer Support	1
Community Projects Review	1
Coyote & Pajaro Field Operations	3
Coyote & Pajaro Watershed	1
Dam Safety Program	1
District Communications	5
East Side Water Treatment Operations	2
Employment Services	1
Environmental, Health & Safety	1
Equipment Management	3
Facilities Management	11
Field Operations	1
Groundwater Mgmt	1
Human Resources	2
Hydrology, Hydraulics, and Geomorphology	1
Imported Water	7
Information and Management Services	4
Laboratory Services	1
Land Surveying & Mapping	1
Local Government Relations	3
Office of Emergency Services	3
Office of CEO	1
Office of District Counsel	1
Office of the Clerk of the Board	1
Purchasing Services	9
Raw Water Field Operations & Pipeline Maintenance	5
Real Estate Services	1
Records & Library	1
Revenue Management	1
Risk Management Program	2
State Government Relations	1
Stream Stewardship	3
Technical Support	2
Treatment Plant Maintenance	11
Utility Electrical & Control Systems	1
Utility Maintenance Engineering	3
Utility Treated Water Ops	1
Vegetation Management	3
Warehouse Services	1
Water Quality	1
Water Resources Planning	2

Purpose/Unit Name	No. of Cardholders
Water Supply Division	1
Water Supply Operations Planning and Analysis	1
Water Use Efficiency	1
Water Utility Capital Division	2
Water Utility Chief's Office	1
Water Utility Technical Support	1
Watershed Chief's Office	2
Watersheds Capital Division	1
Well & Water Services	1
Wells & Water Measurement	1
West and Guadalupe Field Operations	3
West and Guadalupe Program Support	2
West and Guadalupe Watershed	1
Westside Water Treatment Operations	3
Workforce Development	1
Total	127

GENERAL OBSERVATIONS

Overall, the use of P-Cards is well managed at the District. The following strengths were noted in the program:

- Well documented policies and procedures governing District P-Card use are in place at the District.

- Well defined roles and responsibilities between units that are clearly stated and communicated in written procedures.

- Separation of duties and independent review and control is in place where required.

- All cardholders are required to submit monthly P-Card transaction logs.

  The log requires information such as item description, amount, account coding, work order, receipts, sales taxes, etc. The cardholder attests to the expenditures by signing the log and then the log is reviewed and approved by the Unit Manager/ Deputy/ Chief/ BAO before it is sent to the Accounting Unit.

- Utilization reports and transaction detail reports are readily available to management and staff to monitor card use.

- External controls, such as card holder/bank approvals and Merchant Category Code and cash advance blocking, further assist the District in controlling and managing credit card use.

- During FY2013, there were no reports of misuse of District P-Cards.

CONCLUSION

Based on procedural level review of the program, it was determined that the district's current procedures and practices surrounding the Use of District Purchase Cards (P-Cards), if followed, do provide the managerial controls necessary to provide a reasonable level of assurance that purchase cards at the district are used in a matter that is appropriate and in line with business needs.

AUDIT FINDINGS / RECOMMENDATIONS

No significant audit findings were found.

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(End of report)

EXIT MEETING(S)

An audit exit meeting to discuss preliminary audit results was held with the Procurement and Operational Services Division Deputy Administrative Officer on November 15, 2013. The final report was provided on November 21, 2013 for final comment. The Procurement and Operational Services Division Deputy Administrative Officer reviewed and concurred with the final report.

MANAGEMENT RESPONSE

The audit does not contain significant findings or recommendations; therefore a management response is not required.

AUDIT COMMITTEE and BOARD APPROVAL

The final Management Controls of District Credit Card Use audit report will be presented to the Board Audit Ad Hoc Committee (audit committee) review and approval on December 6, 2013.

Once approved by the audit committee, the report will be taken to the Board for review and acceptance.

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FINAL AUDIT REPORT

Prepared By: 11/21/13

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Reviewed By: 11/21/13

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